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Office of the Legislative Auditor

State of Montana

Report to the Legislature

April 1993

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1992

Montana Historical Society

This report contains one recommendation for improvement of the society's operations. The item addressed in this report is merchandise inventory control weaknesses.

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act of 1984 and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports regarding the state's federal financial assistance programs, including all findings of noncompliance and questioned costs. This individual agency audit report is not intended to comply with the Single Audit Act of 1984 or OMB Circular A-128 and is therefore not intended for distribution to federal grantor agencies. The Office of the Legislative Auditor issues a statewide biennial Single Audit Report which complies with the reporting requirements listed above. The Single Audit Report for the two fiscal years ended June 30, 1991 has been issued. Copies of the Single Audit Report can be obtained by contacting:

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STATE OF MONTANA

Office of the Legislative Auditor

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DEPUTY LEGISLATIVE AUDITORS:
MARY BRYSON
Operations and EDP Audit
JAMES GILLETT
Financial-Compliance Audit
JIM PELLEGRINI
Performance Audit

April 1993

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana Historical Society for fiscal years 1990-91 and 1991-92. The report contains one recommendation concerning merchandise inventories. The society's written response to the audit recommendation is included in the back of the audit report.

We thank the director and the society's staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

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Office of the Legislative Auditor

Financial-Compliance Audit
For the Two Fiscal Years Ended June 30, 1992

Montana Historical Society

Audit staff involved in the Montana Historical Society audit included: Mark C. Barry, Jody Brandt, Shawn F. Bubb, Doug G. Melton, Vickie Rauser, and Catherine L. Scarff.

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Appointed and Administrative Officials

Montana Historical Society Board of Trustees

		Term Expires July 1 of
Stuart W. Connor, President	Billings	1993
Ward Shanahan, Vice President	Helena	1997
Susan McDaniel, Secretary	Miles City	1994
Jean Birch	Great Falls	1996
John J. Burke	Butte	1993
Jeanne Eder	Dillon	1997
Charmaine Fisher	Billings	1994
Jack Hayne	Dupuyer	1995
William M. Holt	Lolo	1993
Helen Hornby	Livingston	1993
Virginia Lucht	Big Fork	1996
William Mackay	Roscoe	1994
Harold Poulsen	Great Falls	1997
James W. Reger	Billings	1995
(Vacant)		1996

Montana State Historic Preservation Review Board

		Term Expires October 1 of
Thomas Foor, Chairman	Missoula	1993
Dennis Deppmeier	Billings	1996
Dale Herbort	Helena	1995
Jack Horner	Bozeman	1994
Theo Hugs	Ft. Smith	1994
David Johns	Butte	1995
Kirk Michels	Livingston	1996
Arnold Olsen	Helena	1994
Donald A. Wetzel	Harlem	1995

Montana Historical Society

Brian Cockhill	Director
Sharon McCabe	Centralized Services Manager

Summary of Recommendations

This listing below serves as a means of summarizing the recommendation contained in the report, the society's response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend the Montana Historical Society:

A. Establish procedures to ensure all donated inventory items are recorded on the accounting records in accordance with state law. 6

Agency Response: Partially Concur. See page B-3.

B. Implement review procedures to ensure adjustments made to inventory amounts are reasonable and adequately supported. 6

Agency Response: Partially Concur. See page B-3.

Introduction

General

We performed a financial-compliance audit of the Montana Historical Society for fiscal years 1990-91 and 1991-92. The objectives of the audit were to:

1. Make recommendations as determined necessary for improvement in the management and internal controls of the society.
2. Determine if the society complied with applicable laws and regulations.
3. Determine if the society's financial schedules present fairly the results of operations for the two fiscal years ended June 30, 1992.
4. Determine the status of prior audit recommendations.

This report contains one recommendation to the society. Other areas of concern deemed not to have a significant effect on the successful operations of the society are not specifically included in the report, but have been discussed with management.

In accordance with section 5-13-307, MCA, we analyzed the cost of implementing the recommendation and determined it is not significant.

Background

The Montana Historical Society was established in 1865 by the Territorial Legislature. State law authorized the society to become ". . . an agency of state government for the use, learning, culture, and enjoyment of the citizens of the state and for the acquisition, preservation and protection of historical records, art, archival and museum objects, historical places, sites, and monuments. The society has custody, maintenance and operation of the historical library, museums, art galleries, and historical places, sites and monuments."

Fifteen trustees, appointed by the Governor with the consent of the Senate, administer the society. The society's director, appointed by the Board of Trustees, handles the immediate direction, management, and control of the society. The society

was authorized 50 full-time equivalent (FTE) employees in each fiscal year, 1990-91 and 1991-92.

The society operates five programs with total budgeted expenditures of approximately $2.6 to $2.8 million each fiscal year.

Administration - The administration program provides supervision and coordination with all programs in the society. Activities include public information, accounting and business management, financial reporting, fund raising, and security and building management. The program also provides education and tours for the public. Funding for this program is primarily from the General Fund with additional funds from private grants and donations.

Library - The library collects, preserves, and organizes historic records including manuscripts, photographs, and oral history of Montana and the surrounding region. The materials are accessible to the public. Funding is provided by the General Fund, the Proprietary Fund from sales of photocopies, and transfers from the trust fund accounts for acquisitions.

Museum - The museum collects, preserves, and interprets art, archeological, and ethnological artifacts representative of Montana and surrounding region history. The General Fund is the primary source of funding for the museum along with private grants and donations and sales of copies of photographs and documents.

Publications - The publications program publishes books under the Montana Historical Society Press and Montana, The Magazine of Western History. It also operates the retail and mail order museum store operation. The program is a proprietary operation but requires a General Fund transfer to subsidize publication of the magazine.

Historic Sites Preservation - This program administers the National Historic Preservation Act and the state Antiquities Act. Activities include administering federal grants-in-aid for historic preservation, reviewing properties for the National Register of Historic Places, and certifying historic structures and rehabilitation projects for federal tax credits. Funding is primarily from federal grants.

There is a Montana Historical Society Foundation. The foundation exists to support the Montana Historical Society. The society has no fiduciary responsibilities to the foundation.

Prior Audit Recommendations

Prior Audit Recommendations

The previous audit report for the two fiscal years ended June 30, 1990, contained five recommendations still applicable to the society. The society has implemented three, partially implemented one, and did not implement one of the recommendations. The recommendation not implemented and the one partially implemented deal with controls over merchandise inventory addressed on page 4.

Findings and Recommendations

Merchandise Inventories

The society's publications program consists of the museum store, Montana, The Magazine of Western History, and the Montana Historical Society Press. The society recorded inventory on the Statewide Budgeting and Accounting System (SBAS) of approximately $269,293 and $306,629 at June 30, 1991 and 1992, respectively. During our previous audit, we noted concerns with controls over the merchandise inventory. These concerns are still present. By not fully addressing these control weaknesses, management increases the likelihood of errors occurring and not being detected in a timely manner in the store merchandise operation. The following sections address areas where the society can improve procedures.

Donated Inventory

Periodically, the society receives donations of inventory sold through the museum store. The museum store sold donated inventory for $1,725 in fiscal year 1990-91 and $19,017 in fiscal year 1991-92. According to store personnel, the donated inventory items have individual retail values ranging from $5 to $22.

State law requires the society to record all transactions necessary to present the receipt, use, and disposition of all assets for which the society is responsible in accordance with generally accepted accounting principles (GAAP). GAAP requires recording the value of gifts at fair market value at the time of receipt. Store personnel recorded some of the donated inventory at a value of $85 on the inventory records at June 30, 1992. In response to our inquiries, agency personnel estimated the actual value of this donated inventory at $1,971.

Store personnel stated they were not aware of the GAAP and state requirements regarding donated inventory valuation. Agency management stated valuing the donations is difficult because some of the items are of interest only to collectors. However, society management remains responsible for properly recording the value of all assets in its possession. Without procedures to determine the value of the donations, the society does not have assurance the inventory balance is properly recorded on the accounting records.

Inventory Adjustments

In our previous audit we recommended the society document reasons for adjustments to the perpetual inventory records. During the current audit, we noted a lack of adequate support for inventory adjustments made throughout the audit period. The types of adjustments made to the inventory included correction of errors, breakage in the store, and lost or stolen merchandise.

Currently, the merchandising manager and the administrative assistant make all the adjustments to inventories throughout the year and at fiscal year-end. The centralized services manager reviews adjustments at fiscal year-end to ensure they reconcile to results of the physical inventory. No agency personnel, other than personnel involved in the store operation, review inventory adjustments during the fiscal year to ensure the adjustments are reasonable. State accounting policy recommends separating the responsibilities of recordkeeping, authorization, operations and custodianship of assets. Management decreases the possibilities of errors occurring and not being detected if someone outside the store operation is involved in at least reviewing adjustments made to inventory for correction of errors, etc.

Society personnel stated they implemented our previous audit recommendation by having the centralized service's manager oversee the physical inventory at fiscal year-end. Management personnel also review purchases and expenditures made in the store operation monthly. These procedures do provide some additional control over the store operation and are an improvement from the previous audit. However, these procedures are not sufficient to prevent or detect theft or misuse of inventory during the fiscal year. The society could further improve controls by having publications program personnel not involved in the store operation review inventory adjustments made during the fiscal year. This review would provide assurance the adjustments are reasonable and adequately supported.

Recommendation #1

We recommend the Montana Historical Society:

A. Establish procedures to ensure all donated inventory items are recorded on the accounting records In accordance with state law.

B. Implement review procedures to ensure adjustments made to inventory amounts are reasonable and adequately supported.

Independent Auditor's Report & Agency's Financial Schedules

Summary of Independent Auditor's Report

Summary of Independent Auditor's Report

The independent auditor's report issued on the financial schedules contained in this report is intended to convey to the reader of the financial schedules the degree of reliance which can be placed on the amounts presented.

We issued an unqualified opinion on the Schedule of Changes in Fund Balances, the Schedule of Budgeted Revenue - Estimate and Actual, and the Schedules of Budgeted Program Expenditures by Object and Fund - Budget and Actual. This means the schedules are fairly stated in all material respects and the user may rely on the information presented.

STATE OF MONTANA

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INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying financial schedules of the Montana Historical Society for each of the two fiscal years ending June 30, 1991 and 1992, beginning on page A-4. The information contained in these financial schedules is the responsibility of the society's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than generally accepted accounting principles. The schedules are not intended to be a complete presentation and disclosure of the society's assets, liabilities, and cash flows.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Montana Historical Society for the two fiscal years ended June 30, 1991 and 1992, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

January 12, 1993

MONTANA HISTORICAL SOCIETY
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1992

	General Fund	Special Revenue Funds	Enterprise Funds	Expendable Trust Funds	Nonexpendable Trust Funds
FUND BALANCE: July 1, 1990	$ 0	$ 213,260	$ 312,517	$339,067	$134,430
ADDITIONS					
Fiscal Year 1990-91					
Budgeted Revenue & Transfers In	2,503	529,534[1]	521,059[1]		
Cash Transfers In		59,130			
Prior Year Revenue		(23)			
Prior Year Revenue Adjustments		19,817	(3)	117	228
Nonbudgeted Revenue & Transfers In				26,900	11,435
Support From State of Montana	1,169,712				
Direct Entries to Fund Balance			67		
Fiscal Year 1991-92					
Budgeted Revenue & Transfers In	2,063	598,274[1]	572,444[1]		
Cash Transfers In		69,359			
Prior Year Revenue Adjustments		19,023	(2,894)		
Prior Year Transfer In Adjustments		(622)			
Nonbudgeted Revenue & Transfers In			1,035	18,395	10,146
Support From State of Montana	1,269,836				
Direct Entries to Fund Balance			33,565[1]		
Total Additions	2,444,114	1,294,492	1,125,273	45,412	21,809
REDUCTIONS					
Fiscal Year 1990-91					
Budgeted Expenditures & Transfers Out	1,174,506	587,711[1]	478,902[1]		
Nonbudgeted Expenditures & Transfers Out			57,521[2]	10,845	7,017
Prior Year Expenditure Adjustments	(2,291)	22,336	(2,117)		
Prior Year Expenditures			67		
Nonbudgeted Prior Year Expenditure Adjustments			(915)		
Fiscal Year 1991-92					
Budgeted Expenditures & Transfers Out	1,272,414	611,096[1]	532,840[1]		
Prior Year Expenditure Adjustments	(515)	18,387	(126)		
Direct Entries to Fund Balance		28,035			
Nonbudgeted Expenditures & Transfers Out			(27,378)[2]	10,094	12,221
Nonbudgeted Prior Year Transfer Out Adjustments				(622)	
Total Reductions	2,444,114	1,267,565	1,038,794	20,317	19,238
FUND BALANCE: June 30, 1992	$ 0	$ 240,187	$ 398,996	$364,162	$137,001

[1] See note 2.
[2] See note 8.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-8.

MONTANA HISTORICAL SOCIETY
SCHEDULE OF BUDGETED REVENUE & TRANSFERS IN - ESTIMATE & ACTUAL
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1992

	Charges For Services	Investment Earnings	Federal Indirect Cost Recoveries	Grants, Contracts, Donations & Abandonments	Other Financing Sources	Federal	Sale of Documents, Merchandise & Property	Total
Fiscal Year 1991-92								
GENERAL FUND								
Estimated Revenue	$2,600							$ 2,600
Actual Revenue	2,063							2,063
Collections Over (Under) Estimate	$ (537)							$ (537)
SPECIAL REVENUE FUND								
Estimated Revenue		$ 3,200	$33,000	$ 352,400	$13,200	$ 623,435		$1,025,235
Actual Revenue		0	35,503	136,164	9,505	417,102		598,274
Collections Over (Under) Estimate		$(3,200)	$ 2,503	$(216,236)[2]	$(3,695)	$(206,333)[2]		$ (426,961)
ENTERPRISE FUNDS								
Estimated Revenue					$48,135		$558,000[1]	$ 606,135
Actual Revenue					50,996		521,448	572,444
Collections Over (Under) Estimate					$ 2,861		$(36,552)	$ (33,691)
Fiscal Year 1990-91								
GENERAL FUND								
Estimated Revenue	$3,000							$ 3,000
Actual Revenue	2,503							2,503
Collections Over (Under) Estimate	$ (497)							$ (497)
SPECIAL REVENUE FUND								
Estimated Revenue		$ 3,200	$28,000	$ 293,000	$ 26,200	$ 560,500	$ 37,000[1]	$ 947,900
Actual Revenue		0	29,309	95,455	13,861	358,341	32,568	529,534
Collections Over (Under) Estimate		$(3,200)	$ 1,309	$(197,545)[2]	$(12,339)	$(202,159)[2]	$ (4,432)	$(418,366)
ENTERPRISE FUNDS								
Estimated Revenue					$ 46,000		$440,000[1]	$ 486,000
Actual Revenue					48,069		472,990	521,059
Collections Over (Under) Estimate					$ 2,069		$ 32,990	$ 35,059

[1] See note 2.
[2] See note 9.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-8.

MONTANA HISTORICAL SOCIETY
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES BY OBJECT AND FUND
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1992

	Administration	Library	Museum	Publications	Historical Sites Preservation	Total
PERSONAL SERVICES						
Salaries	$308,156	$ 323,742	$159,340	$141,815	$198,359	$1,131,412
Employee Benefits	76,512	81,557	39,852	36,208	48,341	282,470
Total	384,668	405,299	199,192	178,023	246,700	1,413,882
OPERATING EXPENSES						
Other Services	86,822	14,713	13,175	31,823	8,602	155,135
Supplies & Materials	7,826	15,221	16,068	4,769	5,676	49,560
Communications	13,822	9,227	6,663	20,928	14,446	65,086
Travel	10,736	5,369	2,800	4,125	19,892	42,922
Rent	132,823	3,786	880	10,297	11,278	159,064
Repair & Maintenance	9,776	14,523	977	2,890	3,401	31,567
Other Expenses	7,726	4,451	208	5,939	5,954	24,278
Goods Purchased For Resale				250,272		250,272
Total	269,531	67,290	40,771	331,043	69,249	777,884
EQUIPMENT AND INTANGIBLE ASSETS						
Equipment		15,993	4,995		12,529	33,517
Total		15,993	4,995		12,529	33,517
GRANTS						
From Federal Sources					139,590	139,590
Total					139,590	139,590
TRANSFERS						
Accounting Entity Transfers				50,996		50,996
Total				50,996		50,996
DEBT SERVICE						
Leases				481		481
Total				481		481
TOTAL PROGRAM EXPENDITURES	$654,199	$ 488,582	$244,958	$560,543	$468,068	$2,416,350
GENERAL FUND						
Budgeted	$518,898	$ 424,078	$215,315	$ 50,996	$ 85,934	$1,295,221
Actual	499,878	423,060	213,505	50,996	84,975	1,272,414
Unspent Budget Authority	$ 19,020	$ 1,018	$ 1,810	$ 0	$ 959	$ 22,807
SPECIAL REVENUE FUND						
Budgeted	$199,203	$ 76,546[1]	$ 44,422[1]	$ 13,500	$658,063	$ 991,734
Actual	154,321	32,829	27,353	13,500	383,093	611,096
Unspent Budget Authority	$ 44,882	$ 43,717	$ 17,069	$ 0	$274,970	$ 380,638
ENTERPRISE FUNDS						
Budgeted		$ 32,788[1]	$ 4,121[1]	$532,706		$ 569,615
Actual		32,693	4,100	496,047		532,840
Unspent Budget Authority		$ 95	$ 21	$ 36,659		$ 36,775

[1] See note 2.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-8.

MONTANA HISTORICAL SOCIETY
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES BY OBJECT AND FUND
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1991

	Administration	Library	Museum	Publications	Historical Sites Preservation	Total
PERSONAL SERVICES						
Salaries	$ 313,166	$ 264,368	$133,763	$131,363	$176,014	$1,018,674
Employee Benefits	73,232	64,459	33,582	33,758	42,418	247,449
Total	386,398	328,827	167,345	165,121	218,432	1,266,123
OPERATING EXPENSES						
Other Services	81,102	13,297	19,623	34,409	10,801	159,232
Supplies & Materials	8,476	13,564	20,151	9,313	4,589	56,093
Communications	11,721	10,308	6,483	16,588	12,431	57,531
Travel	12,691	7,255	4,739	5,365	15,966	46,016
Rent	131,501	4,197	619	8,887	11,331	156,535
Repair & Maintenance	9,423	11,476	1,490	2,732	2,526	27,647
Other Expenses	9,205	5,774	3,510	4,239	5,083	27,811
Goods Purchased For Resale				233,312		233,312
Total	264,119	65,871	56,615	314,845	62,727	764,177
EQUIPMENT AND INTANGIBLE ASSETS						
Equipment		19,254	183		15,784	35,221
Intangible Assets					203	203
Total		19,254	183		15,987	35,424
GRANTS						
From Federal Sources					126,890	126,890
Total					126,890	126,890
TRANSFERS						
Accounting Entity Transfers				48,069		48,069
Total				48,069		48,069
DEBT SERVICE						
Leases				436		436
Total				436		436
TOTAL PROGRAM EXPENDITURES	$ 650,517	$ 413,952	$224,143	$528,471	$424,036	$2,241,119
GENERAL FUND						
Budgeted	$ 527,361	$ 378,050	$219,968	$ 48,069	$ 73,054	$1,246,502
Actual	513,571	330,107	209,705	48,069	73,054	1,174,506
Unspent Budget Authority	$ 13,790	$ 47,943	$ 10,263	$ 0	$ 0	$ 71,996
SPECIAL REVENUE FUND						
Budgeted	$ 187,281	$ 93,493[1]	$ 23,630[1]	$ 1,500	$566,229	$ 872,133
Actual	136,946	83,845	14,438	1,500	350,982	587,711
Unspent Budget Authority	$ 50,335	$ 9,648	$ 9,192	$ 0	$215,247	$ 284,422
ENTERPRISE FUNDS						
Budgeted				$537,174		$ 537,174
Actual				478,902		478,902
Unspent Budget Authority				$ 58,272		$ 58,272

[1] See note 2.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-8.

Notes to the Financial Schedules
For the Two Fiscal Years Ended June 30, 1992

1. Summary of Significant Accounting Policies

Basis of Accounting

The Montana Historical Society uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental and Expendable Trust Funds. In applying the modified accrual basis, the society records:

Revenues when it receives cash or when receipts are measurable and available.

Expenditures for valid obligations when the society incurs the related liability and it is measurable.

The Montana Historical Society uses accrual basis accounting for Proprietary and Nonexpendable Trust Funds. Under the accrual basis, as defined by state accounting policy, the society records revenues in the accounting period earned if measurable and records expenses in the period incurred, if measurable.

Expenditures and expenses may include entire budgeted service contracts even though the society received the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

State accounting policy also requires the society to record the cost of employees' annual leave and sick leave when used or paid.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the Statewide Budgeting and Accounting System without adjustment. Accounts are organized in funds according to state law. The society uses the following funds:

Notes to the Financial Schedules

Governmental Funds

General Fund - to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund - to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes. Society Special Revenue Funds primarily include federal assistance programs and donations.

Proprietary Funds

Enterprise Fund - to account for operations: (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the society finance or recover costs primarily through user charges; or (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate. The society accounts for the publications program (which includes merchandise, magazine, and Historical Society press operations) in the Enterprise Fund.

Fiduciary Funds

Expendable and Nonexpendable Trust Funds - to account for assets held by the state in a trustee capacity for individuals, private organizations, other governments or other funds. The society records private donations established as trusts which permit spending the principal in the Expendable Trust Fund. The society records trusts which permits spending only earnings from investments in the Nonexpendable Trust Fund.

2. Reclassification

In fiscal year 1991-92, the Montana Historical Society reclassified amounts earned from the sale of photographic/photocopies from the state Special Revenue Fund to the Enterprise Fund in the Library and Museum programs. Revenues collected were $32,568 and $38,438, in fiscal years 1990-91 and 1991-92, respectively. Expenditures were $28,757 and $31,634 in fiscal years 1990-91 and 1991-92, respectively, related to photographic/photocopies activity in these programs. The society transferred $33,565, related to the reclassification, from the Special Revenue Fund balance to the Enterprise Fund balance in fiscal year 1991-92.

3. Annual and Sick Leave

Employees at the society accumulate both annual and sick leave. The society pays employees for 100 percent of unused annual and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for annual and sick leave are not reflected in accompanying financial schedules. In the Proprietary Funds, the increase in annual and 25 percent of the increase in sick leave are recognized as nonbudgeted expenditures when the related liability is recorded at year-end. The society absorbs expenditures for termination pay in its annual operational costs. At June 30, 1992 the society had a liability of $90,497 and $17,712 in the General Long-Term Debt Account Group and Proprietary Funds, respectively.

4. Pension Plan

Employees are covered by the Montana Public Employees' Retirement System (PERS). The society's contribution to PERS was $64,147 in fiscal year 1990-91 and $71,424 in fiscal year 1991-92.

5. General Fund Balance

The General Fund is a statewide fund. Agencies do not have a separate General Fund since their only authority is to pay obligations from the statewide General Fund within their appropriation limits. Thus, on an agency's financial schedules, the General Fund beginning and ending fund balance will always be zero.

6. Museum Collection

Museum collections at the society include C.M. Russell, Poindexter, Ethnographic, Griffin, History, Haynes, Johns Gun, Original Governor's Mansion, and the Permanent Fine Arts Collection. Library and Archives collections consist of books, periodicals, maps, microfiche, photographs, monographs, and manuscripts. The society recorded the estimated value of its collection as of June 30, 1992 at $41,909,384 on its property records.

7. Deferred Revenue

The society collects subscription money for Montana, The Magazine of Western History. As money is collected, it is recorded as deferred revenue. When publications are mailed, revenue is recognized and deferred revenue is reduced by the subscription price of those publications. At June 30, 1992, the society had deferred $98,518 of magazine revenue in the Enterprise Fund. State law allows the society to use deferred revenue received from subscription fees to finance current fiscal year operations for the publication of its magazine.

8. Nonbudgeted Activity

Nonbudgeted expenditures in the Enterprise Fund are related to changes in merchandise inventories and compensated absence liability.

9. Revenue Estimates

The Schedule of Budgeted Revenue and Transfers In for the Special Revenue Fund shows large estimated revenues in relation to actual revenues for the Federal and Grants, Contracts, Donations, & Abandonments revenue classifications. Because federal, grant, and donation revenue is difficult to estimate, society management generally estimates higher, rather than lower, for these types of revenues.

Agency Response

MONTANA HISTORICAL SOCIETY

225 NORTH ROBERTS STREET • (406) 444-2694 • HELENA, MONTANA 59620-1201

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MAR 16 1993
LEGISLATIVE

March 15, 1993

Scott Seacat
Legislative Auditor
Office of the Legislative Auditor
State Capital
Helena, Mt. 59620

Dear Mr. Seacat:

The following is our response to the recommendation in the Financial Compliance Audit for the two fiscal years ended June 30, 1992:

Recommendation #1A

Establish procedures to ensure all donated inventory items are recorded on the accounting records in accordance with State Law.

The Society partially concurs.

The donated items in question for $1,971.00 is .7% (.007) of the total inventory. This amount is very immaterial and it is the Society's opinion that the inventory amount has not resulted in enough misstatement for the Society to concur with the auditor's statement that "the Society does not have assurance the inventory balance is properly recorded on the Accounting records."

The Society does record donated items on the accounting records. The recorded dollar amounts of the items should be the issue and not the fact that they are not recorded. It is the policy of the Society not to give Donor's a dollar value on the Record of Acquisition because this would be a conflict of interest for the Society. The Society therefore does not have fair market values available for the majority of donated items. The Society, however will record donated items at an estimate of value if an estimate is readily available. The Society will establish procedures immediately for items having an estimate readily available.

Recommendation #1B

Implement review procedures to ensure adjustments made to inventory amounts are reasonable and adequately supported.

The Society partially concurs.

MOMS 2-1210 states "If feasible, functional responsibilities of Record Keeping, Authorization, Operations and Custodianship should be separated". There are two qualifying considerations in this section: 1) If feasible and 2) Should be separated. The Historical Society feels the Inventory amounts are reasonable.

The Publications Program, which includes the Merchandise function has only a few employees and has not been able to acquire additional authority for personnel. This program will "if feasible" make every attempt possible to comply with this recommendation. In attempting compliance Agency personnel other then personnel involved in the store function will review adjustments during the fiscal year. If feasible, the implementation of this recommendation will occur immediately.

The Society agrees that adjustments should be adequately supported. Merchandise personnel are currently keeping written documentation on all adjustments. There was not sufficient time to implement this recommendation in this audit time frame but has been implemented in fiscal year 93.

Sincerely,

Brian Cockhill

Brian Cockhill
Director